



# Calculating Timber Loss for Woodland Owners

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Timber losses caused by natural or other external forces acting in a sudden, unexpected or unusual manner may entitle a timber owner to a casualty loss deduction. To qualify as a casualty loss, the damage must actually result in rendering timber unfit for use. This would include trees, which are blown down, tops are severed, trunks are split or other damage, which stops growth or results in death of tree. Damage that reduces the rate of growth or the quality of future timber is not a casualty loss.

To qualify as a deduction, the casualty loss must have occurred during the tax year in which the deduction is claimed. Casualty losses are reported using Federal Form 4684. Documentation consisting of the date of the casualty, the location of the damaged property, property appraisals, and photographs of the property before and after the disaster should be maintained by the taxpayer.

Casualty loss deductions are limited to the amount of the adjusted basis in the timber. Gain or loss from a casualty would be computed as follows:

$$\text{Gain or Loss} = (T + I) - C$$

Where

T is Total sales receipts from the sale of the damaged timber (salvage)

I is insurance payment received because of damage to the timber

C is Cost or other basis in timber and expenses of sale

Gain or Loss is Net gain or loss

## Forest Disaster Factsheet

<http://www.ces.ncsu.edu/forestry/programs/disaster.php>

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## Casualty Loss in Pre-merchantable Stands

Plantations or young growth natural stands (which are not yet merchantable size or age) destroyed by casualty may entitle a landowner to claim a loss if pre-merchantable plantation and/or young growth accounts are maintained. Amount of the loss is derived first by dividing the cost or other amount allocated in the accounts by the total number of acres in plantation or young growth. This value per acre, multiplied by the number of acres destroyed, gives the allowable basis which may be claimed as a casualty loss deduction.

Example: A taxpayer owns a 25-acre loblolly pine plantation that he/she

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reforested three years ago at a cost of \$2,500. In the current tax year, a tornado destroyed 10 acres of the plantation. The loss would be calculated as

Cost basis per acre: \$2500 divided by 25 acres = \$100/acre

Allowable loss: \$100/acre x 10 acres destroyed = \$1000

### **Casualty Loss in Merchantable Stands**

The amount of the adjusted basis less insurance recovery is the maximum casualty loss which can be claimed if a stand is totally destroyed with no opportunity to salvage. Timber damaged but not rendered unmerchantable can often be salvaged. First, determine the depletion unit by dividing the adjusted basis by the total number of merchantable units of timber. The depletion unit multiplied by the number of units destroyed or damaged gives the allowable basis that may be claimed as a casualty loss deduction.

Example: A taxpayer sustained the complete loss of 5 acres of timber in a 50 acre stand. The stand originally contained 2,000,000 board feet of merchantable timber with 20,000 board feet destroyed. The adjusted basis in the timber was \$3,000 with a depletion unit of \$15/mbf (\$3,000 divided by 2,000,000 board feet). Since no salvage was possible and the timber was not insured, the allowable casualty loss was \$300 (20,000 board feet x \$15).

### **Salvage Sale**

In the case of a salvage sale, gain or loss from the casualty would be figured much in the same way as for any timber sale.

Example: Wind damaged 10 acres of pine sawtimber that the taxpayer salvaged for \$8,000. The adjusted basis in the timber was \$500. A consulting forester charged \$800 to administer the sale. Gain or loss is computed as follows.

\$8,000 Salvage sale receipts  
-\$800 Sale cost  
-\$500 Adjusted basis  
\$6,700 The taxpayer has a gain

### **Tax Deferral on Gain**

If a casualty results in a net gain, income taxes levied on that gain may be deferred if the gain is reinvested in certain "like" properties (Revenue Ruling 80-175). Like properties include other standing timber, replacement timber sites, seeds or seedlings, and planting costs on currently owned or replacement timber sites. The ruling specifically refers to high winds, earthquakes or volcanic eruptions but logically includes other types of casualties.

For more information, contact Extension Forestry, 919.515.5638.

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[www.ces.ncsu.edu/forestry/programs/disaster.php](http://www.ces.ncsu.edu/forestry/programs/disaster.php)



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